

EXAMPLE*

This example is for a 100% Michigan taxpayer with a 12 month return ending 12/31/2001.

Federal Taxable Income	\$ 50,000
Compensation	+ 252,000
Depreciation	+ 70,000
Interest Paid	+ 28,000
Tax Base	\$400,000
Recapture of Capital Acquisition Deduction	+ 20,000
Adjusted Tax Base	\$420,000
Tax Rate	x .02
Tax Before All Credits	\$8,400
Investment Tax Credit (ITC) (a)	- 739
Tax After Investment Tax Credit	\$7,661
Small Business Credit (b)	- 2,796
Tax After Credits**	\$4,865

**Instead of this lengthy calculation, businesses that are eligible for the small business credit may choose to pay an alternate tax of 2 percent of adjusted business income. The alternate tax would equal \$2,400 for this calculation. The Investment Tax Credit cannot be taken if this calculation is used.

*This example and narrative are not meant as a detailed guide to the SBT calculation. In the interest of clarity, some details were omitted. Consult the SBT instruction booklet for the precise calculations.

DISCLAIMER:

This example was prepared using the law in effect for the 2001 tax year.

(a) Investment Tax Credit (ITC) Calculation

Assume adjusted gross receipts of \$5,100,000 and net capital investments of \$100,000.

Investment Tax Credit =	
Net Capital Investment	\$100,000
x	x
<u>SBT Tax Rate For Year</u>	OR .02 (2.0%)
.023	.023 (2.3%)
x	x
ITC Adjusted	.0085 (.85%)
Gross Receipts Percentage	
=	=
Investment Tax Credit	\$739

(b) Small Business Credit Calculation

Profits	\$50,000
Owners' Compensation	+ 70,000
Adjusted Business Income (ABI)	\$120,000
	100%
<u>[\$120,000</u>	
(45% x \$420,000)]	- 63.5%
	36.5%
[Tax After Investment Tax Credit]	x \$7,661
[Small Business Credit]	\$2,796

THE SBT – A NARRATIVE SUMMARY OF THE CALCULATION*

Sum of:

- *Federal Taxable Income*—profits.
- *Compensation*—wages, salaries, benefits, etc.
- *Depreciation*—as deducted on federal income tax return.
- *Net Interest Paid*—interest paid less interest received.

Equals: Your Tax Base

Multiplied by:

- *Apportionment Factor*—weighted sales (90%), property (5%) and payroll (5%) factors.
- Payroll Factor*—proportion of total payroll in Michigan.
- Property Factor*—proportion of total property in Michigan.
- Sales Factor*—proportion of total Michigan sales.

Equals: Apportioned Tax Base

Plus

- *Recapture of Capital Acquisition Deduction*—recapture any depreciable real or personal property that you disposed of during the year which was acquired in tax years beginning on or after January 1, 1976 and before January 1, 2000.

Minus:

- *Statutory Exemption*—an exemption of \$45,000 which is reduced for firms with modified business income exceeding \$45,000, declining to \$0 when modified business income exceeds \$67,500.
- *Business Loss Deduction*—loss carryovers from previous years.

Equals: Adjusted Tax Base

Minus:

- *Excess Compensation Reduction*—the amount by which total compensation exceeds 63 percent of the tax base before apportionment, **OR**
- *Gross Receipts Reduction*—the amount by which the adjusted tax base exceeds 50 percent of adjusted gross receipts.

Multiplied by: Tax rate in effect

Equals: Tax Before All Credits

Minus:

- *Investment Tax Credit (ITC)*—The ITC replaced the capital acquisition deduction for tax years beginning after December 31, 1999. The amount of the credit is calculated by multiplying net capital investments made in Michigan during the taxable year by an annualized percentage determined by dividing the SBT tax rate in effect for the year by 2.3%. The result is multiplied by a percentage based on adjusted gross receipts.

Equals: Tax After Investment Tax Credit

Minus:

- *Small Business/Low Profit Credit*—for firms with adjusted business income below \$475,000, gross receipts below \$10 million and adjusted business income to any business owner below \$115,000. The credit may be up to 100 percent of liability and declines as business income increases. Eligible businesses claiming this credit may choose to pay an alternate 2 percent tax on adjusted business income (net income plus compensation to active owners plus loss carryovers.)
- *Other Credits*—see *What Credits are Available?*

Equals: Single Business Tax Liability